CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

December 17, 2018

The Honorable City Council
Palo Alto, California

Policy and Services Committee Recommends the City Council Accept the Auditor's Office Quarterly Report as of September 30, 2018

The Office of the City Auditor recommends acceptance of the Auditor's Office Quarterly Report as of September 30, 2018. At its meeting on October 23, 2018, the Policy and Services Committee unanimously recommended that the City Council accept the report. The City Auditor's report to the Policy and Services Committee and the transcript minutes are available on the City's Policy and Services Committee website.

Respectfully submitted,

Harriet Richardson

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: Auditor's Office Quarterly Report as of September 30, 2018   (PDF)

Department Head: Harriet Richardson, City Auditor

Quarterly Report as of September 30, 2018

Office of the City Auditor

"Promoting honest, efficient, effective, economical, and fully accountable and transparent city government."

Fiscal Year (FY) 2019 First Quarter Update (July – September 2018)

Overview

The audit function is essential to the City of Palo Alto's public accountability. The mission of the Office of the City Auditor, as mandated by the City Charter and Municipal Code, is to promote honest, efficient, effective, economical, and fully accountable and transparent city government. We conduct performance audits and reviews to provide the City Council and City management with information and evaluations regarding how effectively and efficiently resources are used; the adequacy of internal control systems; and compliance with policies, procedures, and regulatory requirements. Taking appropriate action on our audit recommendations helps the City reduce risks and protect its good reputation.

Activity Highlights

- Completed and submitted to the Policy & Services Committee the FY 2019 Annual Audit Work Plan.
- City Auditor Harriet Richardson provided internal control training to 12 City staff who manage federally funded grants.

Audit and Project Work

Below is a summary of our audit and project work for the first quarter of FY 2019:

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Business Registry	Evaluate the rules and processes used to establish the business registry and make recommendations to help clean up the data and ensure accuracy in the future.	02/18	11/18	In Progress	This audit was presented to the Policy & Services Committee in September 2018. The Committee requested additional analysis, which we will bring back to the Committee in November 2018.
ERP Planning Audit: Data Reliability and Integrity – Data Standardization	This is the first in a series of audits that focus on evaluating the integrity and reliability of data in SAP and making recommendations to ensure that identified deficiencies are corrected prior to transferring data to the new ERP system. This audit focuses on identifying where standardizing data would be beneficial when implementing the new ERP system	05/17	10/18	In Progress	This audit is in the technical review phase and will be presented to the Policy & Services Committee in October 2018.
ERP Planning Audit: Separation of Duties	Evaluate the adequacy of separation of duties for various activities in the current SAP system and make recommendations to ensure that identified deficiencies are corrected for the new ERP system.	05/17	10/18	In Progress	This audit is in the technical review phase and will be presented to the Policy & Services Committee in October 2018.

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Code Enforcement Audit	Evaluate the timeliness and effectiveness of code enforcement actions, the effectiveness of communication with the public, and the accuracy and completeness of code enforcement case tracking for decision making purposes. We conducted a resident survey to help inform our audit recommendations, as described below.	05/17	11/18	In Progress	The audit is in the technical phase and will be presented to the Policy & Services Committee in November 2018.
ERP Planning Audit: Data Reliability and Integrity – Personnel Data	This is the second in a series of audits that focus on evaluating the integrity and reliability of data in SAP and making recommendations to ensure that identified deficiencies are corrected prior to transferring data to the new ERP system. This audit focuses on assessing the accuracy of employee master data, such as name, address, birthdate, and social security number.	09/17	12/18	In Progress	This audit is in the report writing phase, and we expect to present it to the Policy & Services Committee in December 2018.\n\nNOTE: We previously referred to this audit as "Human Resources/Payroll Data" but changed it to "Personnel Data" for clarification.
ERP Planning Audit: Data Reliability and Integrity – Utilities Customer Data	This is the third in a series of audits that focus on evaluating the integrity and reliability of data in SAP and making recommendations to ensure that identified deficiencies are corrected prior to transferring data to the new ERP system. This audit focuses on assessing the accuracy of Utilities' customer master data that is used for billing purposes, such as customer name, service and billing addresses, and move-in and move-out dates.	06/18	2/19	In Progress	This audit is in the field work phase. We expect to present the audit to the Policy & Services Committee in February 2019.
Mobile Device Inventory and Security	Determine if the City accurately inventories and securely manages city-owned mobile devices, including laptops, tablets, cell/smart phones, and radios.	03/18	2/19	In Progress	This audit is in the field work phase. We expect to present the audit to the Policy & Services Committee in February 2019.
Nonprofit Organizations Audit	Evaluate whether nonprofit organizations that receive City funding are achieving the outcomes we expect from the funding we provide. The audit focuses primarily on nonprofit organizations that provide senior services.	06/18	02/19	In Progress	This audit is in the field work phase. We expect to complete the audit in early 2019.

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Contract Oversight	Select a sample of contracts to evaluate the contract oversight process by determining if the City has adequate processes to ensure that the City receives the goods and services it paid for, that contracts did not result in unnecessary overlaps in services, and that contract extensions and change orders were appropriate.	06/18	03/19	In Progress	This audit is in the field work phase. We expect to present the audit to the Policy & Services Committee in March 2019.
Transferable Development Rights	Determine if the City maintains an accurate and complete record of the transferable development rights (both City-owned and non-City-owned) that have been certified, transferred, and used to date.	06/18	06/19	In Progress	This audit is in the planning phase. We have delayed moving forward with this audit until late 2018, after we have completed other in-progress audits. We expect to complete the audit in mid-2019.
ERP Nonaudit Service	Provide advisory services to the Department of Information Technology regarding its planning of a new ERP system.	09/16	N/A	Ongoing	We did not provide this service during the first quarter of FY 2019 and will resume our service after the City decides how to move forward with a new ERP system. We will then focus on assisting the City with addressing the issues we identified during the ERP planning phase and prior audits as it designs and implements the new system.
National Citizen Survey™	Obtain resident opinions about the community and services provided by the City of Palo Alto and benchmark our results against other jurisdictions.	06/18	01/19	In Progress	Survey was distributed to 4,500 residents in August 2018, with the final postmark due date of September 21. The National Research Center is currently compiling the results of the survey but has provided a final count of 893 returned surveys, which is a 21 percent response rate after subtracting the undeliverable surveys.

Other Monitoring and Administrative Assignments

Below is a summary of other assignments as of September 30, 2018:

Title	Objective(s)	Status	Results/Comments
City Auditor Advisory Roles	Provide guidance and advice to key governance committees within the City.	Ongoing	The City Auditor serves as an advisor to the Utilities Risk Oversight Committee and Information Security Steering Committee. We are also serving as an advisor for the strategic and technical planning groups for planning the new ERP system (see comment in the Audit and Project Work section above).
Sales and Use Tax Allocation Reviews	1) Identify businesses that do business in Palo Alto that may have underreported or misallo-cated their sales and use tax and submit inquiries to the state for review and tax reallocation. 2) Monitor sales taxes received from the Stanford University Medical Center Project and notify Stanford of any differences between their reported taxes and state sales tax information, in accordance with the development agreement. 3) Provide Quarterly Status Updates and Sales Tax Digest Summaries for Council review.	Ongoing	1) There were no sales or use tax recoveries for the first quarter of FY 2019 from either our inquiries or the vendor's inquiries. However, due to processing delays at the State Board of Equalization, 51 potential misallocations are waiting to be researched and processed: 24 from our office and 27 from the vendor. 2) We receive prior calendar-year sales tax information for the Stanford Medicine development project several months after the end of the calendar year and report these on our June quarterly report. The City has received $3,681,743 for calendar years 2011 through 2017 as a result of the development agreement for this project. 3) Quarterly sales tax reports are published on the Office of the City Auditor website at www.cityofpaloalto.org/gov/depts/aud/reports/default.asp.

Status of Audit Recommendations

Fifty-one recommendations were open at the beginning of the first quarter of FY 2019, and seven were closed. We added three recommendations during the quarter, which resulted in 47 recommendations open at the end of the quarter. No status reports were presented during the quarter, and five are scheduled to be presented in October. Below is a summary of the open audit recommendations as of September 30, 2018:

| Audit Title and Report Date	Due Date and Prior Status Report Dates	Total Recommendations/ Number Open	Summary of Open Recommendations
Citywide Cash Handling and Travel Expense Issued 09/15/10	Scheduled for 10/18 03/21/18 08/22/17 11/10/15 09/23/14 09/10/13 10/22/12 04/19/11	Recommendations: 11 Open: 1 Implemented during quarter: 0	• Review practice of reimbursing employee meals when not in a travel status and report the amounts as income to employees to conform to Internal Revenue Service requirements (ASD)

Audit Title and Report Date	Due Date and Prior Status Report Dates	Total Recommendations/ Number Open	Summary of Open Recommendations
Inventory Management Issued 02/18/14	Scheduled for 10/18 11/02/17 09/23/14	Recommendations: 14 Open: 4 Implemented during quarter: 0	• Implement City's inventory management policies and procedures (ASD/UTL/PWD/IT) • Update and enforce inventory count policies and procedures to ensure consistent and accurate inventory records (ASD) • Identify, formalize, and communicate inventory management goals and objectives to City departments (ASD) • Ensure staff identify and use key SAP inventory management reports and appropriately configure and update SAP parameters that affect inventory levels (ASD/IT)
Utility Meters: Procurement, Inventory, and Retirement Issued 03/10/15	Scheduled for 10/18 11/02/17	Recommendations: 15 Open: 0 Implemented during quarter: 1	All recommendations are now closed.
Parking Funds Issued 12/15/15	Due – 12/18 06/21/18 11/14/17	Recommendations: 8 Open: 1 Implemented during quarter: 0	• Develop policies and procedures to clarify roles and responsibilities and ensure accurate calculation and reporting of parking-in-lieu fees (PCE, ASD, PWD, CLK)
Disability Rates and Workers' Compensation Issued 05/10/16	Scheduled for 10/18 02/13/18	Recommendations: 15 Open: 4 Implemented during quarter: 4	• Review departmental procedures and safety requirements to ensure they align with citywide policies and procedures (HR) • Identify and provide industry-specific ergonomics and general wellness training opportunities (HR) • Address the disability leave benefits incorrectly reported as compensation to CalPERS (HR) • Ensure that data for managing disability leave is accurately captured through SAP time reporting (HR)

Audit Title and Report Date	Due Date and Prior Status Report Dates	Total Recommendations/ Number Open	Summary of Open Recommendations
Cable Franchise and Public, Education, and Government (PEG) Fees Issued 06/14/16	Scheduled for 10/18 03/21/18 08/22/17	Recommendations: 9 Open: 6 Implemented during quarter: 0	• Assess ongoing need for PEG fees; place fees in restricted account until decisions are made about use of fees (CMO/ATTY/ASD/IT) • Determine whether to allocate unrestricted funds, instead of PEG fees, to subsidize the Media Center's operations. (CMO/ATTY/ASD/IT) • Send letters to cable companies to demand payment of underpaid franchise and PEG fees (CMO/ATTY/ASD/IT) • Develop criteria for assessing the accuracy of future cable franchise and PEG fee payments and require more detail with payment remittances (ASD) • Assign responsibility for the cable communications program and provide effective oversight of the program (CMO/CLK) • Draft an ordinance to update the Palo Alto Municipal Code based on clarified assignment of responsibility (CMO/ASD/ATTY/CLK)
Community Services Department (CSD): Fee Schedule Audit Issued 02/14/17	Due – 12/18 06/21/18 11/14/17	Recommendations: 3 Open: 2 Implemented during quarter: 0	• Revise City's cost recovery policy to align with relevant laws and reconfigure the Questica budget system to support fees that recover more than 100 percent of costs (ASD) • Configure SAP or the new ERP system to align cost centers with CSD programs (CSD)
Continuous Monitoring: Payments Issued 04/13/17	Scheduled for 10/18 03/21/18	Recommendations: 7 Open: 3 Implemented during quarter: 2	• Build a continuous monitoring process into the new ERP system to identify potential duplicate invoices and seek recovery of duplicate payments (ASD) • Build a continuous monitoring process into the new ERP system to identify duplicate, incomplete, or unused vendor records (ASD) • Clean vendor master file before merging data into new ERP system (ASD)

Audit Title and Report Date	Due Date and Prior Status Report Dates	Total Recommendations/ Number Open	Summary of Open Recommendations
Green Purchasing Practices Issued 04/13/17	Due – 12/18 06/21/18	Recommendations: 8 Open: 6 Implemented during quarter: 0	• Clearly define department(s) responsible for implementing green purchasing policies and determine if additional staffing and funding are needed to implement the policies (ASD/CMO) • Develop consolidated procedures to implement green purchasing policies (CMO/ASD/PWD) • Educate City staff on green purchasing policies (ASD) • Evaluate potential for use of 40 percent post-consumer fiber paper towels/other green janitorial products and monitor janitorial contractor's compliance with green purchasing requirements (PWD) • Evaluate if new e-procurement system or other technology solution can help with tracking and reporting green purchases and establish appropriate green purchasing performance measures (ASD/PWD) • Require vendors to provide data on amounts of green products and services that City purchases from them (ASD/PWD)
Utilities Department: Cross Bore Inspection Contract Issued 06/01/17	Due – 12/18 06/21/18	Recommendations: 4 Open: 4 Implemented during quarter: 0	• Prioritize uninspected sewer pipelines for inspection and disclose potential inspection challenges in future contract solicitations (UTL) • Identify and update missing data in laterals database (UTL) • Incorporate relevant provisions from National Association of Sewer Service Companies' contract template in future sewer inspection contracts (UTL) • Identify gaps in staff expertise and develop a training and certification plan for field staff who will monitor field inspections (UTL)
Accuracy of Water Meter Billing Issued 08/16/17	Due – 12/18 06/21/18	Recommendations: 11 Open: 7 Implemented during quarter: 0	• Review and correct meter records for meters larger than 2 inches (UTL) • Explore options for addressing equity in meter size rates (UTL) • Develop a policy and procedures to report significant, systemic infrastructure changes to Council and update City of Palo Alto Utilities' (CPAU) Rules and Regulations as needed (UTL) • Seek direction from Council before proceeding with installing additional electronic meters (UTL) • Determine if installed eMeters should be replaced and if billing adjustments are required (UTL) • Clarify purchasing policy and procedures for product standardization and sole source (ASD) • Retrain staff on purchasing policies and procedures and completion of required forms (ASD)

Audit Title and Report Date	Due Date and Prior Status Report Dates	Total Recommendations/ Number Open	Summary of Open Recommendations
Continuous Monitoring: Overtime Issued 09/06/17	Due – 12/18 None	Recommendations: 2 Open: 2 Implemented during quarter: 0	• Explore potential of developing a continuous monitoring process for overtime (ASD) • Form a work group to design standardized overtime management processes in the new ERP environment (ASD)
Information Technology and Data Governance Issued on 06/13/18	Due – 2/19 None	Recommendations: 4 Open: 4 Implemented during quarter: 0	• Assign roles and responsibilities for IT governance to ensure that governance coveralls all key aspects of the City's information systems (IT) • Adopt an industry standard IT governance framework and create a plan to achieve a process capability model of "established" or higher (IT) • Assign roles and responsibilities for data governance to ensure that governance coveralls all key aspects of the City's information systems (IT) • Adopt an industry standard data governance framework and create a plan to achieve a process capability model of "established" or higher (IT)
Business Registry Issued on 08/28/18	Will be determined after Council acceptance	Recommendations: 3 Open: 3 Implemented during quarter: 0	• Clarify existing and potential uses and priorities for business registry data and update questions in business registry survey as appropriate (CMO, DSD, PCE, Trans) • Identify external data that can improve accuracy of data collected and provide the data to the business registry consultant (DSD) • Update business registry administrative manual to reflect current process, including roles and responsibilities (DSD and Attorney)

Number of Implemented Recommendations by Quarter

Number of Open Recommendations
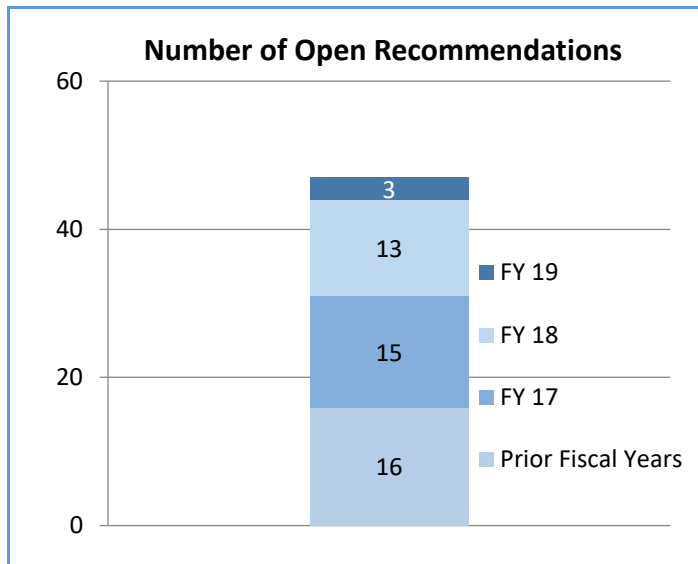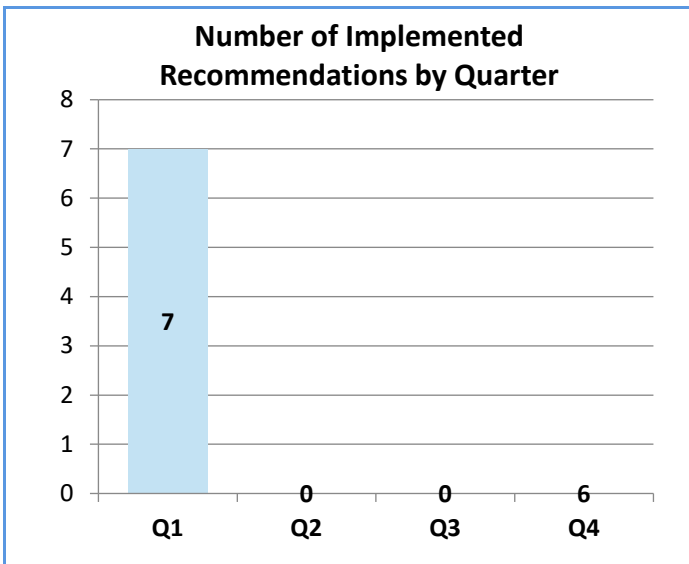
Open Recommendations by Audit Issuance Date

Fiscal Year	Audit Title	Number of Open Recommendations
2011	Citywide Cash Handling and Travel Expense	1 of 11
2014	Inventory Management	4 of 14
2016	Parking Funds	1 of 8
	Cable Franchise and Public, Education, and Government (PEG) Fees	6 of 9
	Disability Rates and Workers' Compensation	4 of 15
2017	Community Services Department: Fee Schedule	2 of 3
	Continuous Monitoring: Payments	3 of 7
	Green Purchasing Practices	6 of 8
	Utilities Department: Cross Bore Inspection Contract	4 of 4
2018	Accuracy of Water Meter Billing	7 of 11
	Continuous Monitoring: Overtime	2 of 2
	Information Technology and Data Governance	4 of 4
2019	Business Registry	3 of 3

Fraud, Waste, and Abuse Hotline Administration

The hotline review committee, composed of the City Auditor, the City Attorney, and the City Manager, or their designees, meets as needed to review hotline-related activities. One complaint was received during the first quarter of FY 2019, which is still open pending receipt of additional information from complainant. All prior-year complaints have been closed. The chart below summarizes the status of complaints received in each fiscal year since the hotline was implemented.